

NORTHWEST HARVEST

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2020 AND 2019



NORTHWEST HARVEST  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

April 1, 2021

Board of Directors  
Northwest Harvest  
Seattle, Washington

We have audited the accompanying financial statements of Northwest Harvest (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

**Basis for Qualified Opinion**

No accounting controls were exercised over document retention with respect to the receipts and disbursement of donated goods at Northwest Harvest's largest distribution facility. We were unable to obtain sufficient appropriate audit evidence about the amounts recognized for contributed goods and services and food and non-food distribution expense for the year ended June 30, 2020 because of the lack of document retention. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

**Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Northwest Harvest as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The financial statements for Northwest Harvest as of June 30, 2019 and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated June 9, 2020.



Jacobson Jarvis & Co, PLLC

NORTHWEST HARVEST

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 37,368,636	\$ 813,185
Investments	1,280,483	1,516,040
Contributions and other receivables	3,170,261	1,033,910
Inventory - food held for distribution	6,009,029	4,365,420
Prepays and deposits	<u>189,222</u>	<u>239,452</u>
Total Current Assets	48,017,631	7,968,007
Security Deposit	163,465	16,000
Beneficial Interests in Funds Held by Others	7,799,884	7,341,463
Property and Equipment, net	<u>2,854,065</u>	<u>12,367,095</u>
	<u>\$ 58,835,045</u>	<u>\$ 27,692,565</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities		
Accounts payable	\$ 718,256	\$ 720,065
Accrued liabilities	<u>743,151</u>	<u>496,914</u>
Total Current Liabilities	1,461,407	1,216,979
Refundable Advances	2,065,483	-
Deferred Gain on Sale of Property	2,080,676	-
Deferred Rent Liability	<u>136,507</u>	<u>104,389</u>
Total Liabilities	<u>5,744,073</u>	<u>1,321,368</u>
Net Assets		
Without donor restriction	36,476,515	18,497,714
With donor restriction	<u>16,614,457</u>	<u>7,873,483</u>
Total Net Assets	<u>53,090,972</u>	<u>26,371,197</u>
	<u>\$ 58,835,045</u>	<u>\$ 27,692,565</u>

See notes to financial statements.

NORTHWEST HARVEST

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Cash contributions and pledges	\$22,302,683	\$ 8,949,984	\$31,252,667	\$10,567,680	\$ 8,348,248	\$18,915,928
Contributions of goods and services	39,919,343	-	39,919,343	42,157,780	30,000	42,187,780
Grants from government agencies	4,284,076	-	4,284,076	155,675	-	155,675
Investment return, net	661,529	(56,438)	605,091	147,840	(17,794)	130,046
Other revenue	348,670		348,670	951,102		951,102
Gain (loss) on sale of property	5,741,037		5,741,037	(82,873)		(82,873)
Net assets released from restrictions	<u>152,572</u>	<u>(152,572)</u>	<u>-</u>	<u>2,695,345</u>	<u>(2,695,345)</u>	<u>-</u>
Total Support and Revenue	<u>73,409,910</u>	<u>8,740,974</u>	<u>82,150,884</u>	<u>56,592,549</u>	<u>5,665,109</u>	<u>62,257,658</u>
Expenses						
Program services	50,487,046		50,487,046	50,461,405		50,461,405
Management and general	2,145,773		2,145,773	1,903,746		1,903,746
Fundraising	<u>2,798,290</u>		<u>2,798,290</u>	<u>2,595,582</u>		<u>2,595,582</u>
Total Expenses	<u>55,431,109</u>		<u>55,431,109</u>	<u>54,960,733</u>		<u>54,960,733</u>
Change in Net Assets	17,978,801	8,740,974	26,719,775	1,631,816	5,665,109	7,296,925
Net Assets - Beginning of Year	<u>18,497,714</u>	<u>7,873,483</u>	<u>26,371,197</u>	<u>16,865,898</u>	<u>2,208,374</u>	<u>19,074,272</u>
Net Asset - End of Year	<u>\$ 36,476,515</u>	<u>\$ 16,614,457</u>	<u>\$ 53,090,972</u>	<u>\$ 18,497,714</u>	<u>\$ 7,873,483</u>	<u>\$ 26,371,197</u>

NORTHWEST HARVEST

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Food and non-food distribution	\$ 41,925,200	\$ -	\$ -	\$ 41,925,200	\$ 43,872,714	\$ -	\$ -	\$ 43,872,714
Labor, taxes and benefits	4,234,678	1,480,913	1,327,190	7,042,781	3,799,418	1,504,444	1,183,894	6,487,756
Facilities and equipment	1,719,216	78,233	54,095	1,851,544	1,045,737	29,629	48,171	1,123,537
Other operating	1,058,043	259,874	116,358	1,434,275	175,487	81,597	106,808	363,892
Depreciation and amortization	517,946	41,716	61,133	620,795	515,192	85,333	48,500	649,025
In-kind media services	-	-	554,868	554,868	-	-	524,355	524,355
Branding, marketing and solicitations	25,350	12,511	481,606	519,467	12,729	10,293	480,934	503,956
Food and non-food transportation	453,097	-	-	453,097	494,000	-	-	494,000
Technology and telecommunications	244,931	82,554	73,025	400,510	261,516	45,471	67,400	374,387
Professional services	146,552	122,582	100,274	369,408	106,458	47,661	73,419	227,538
Travel, learning and outreach	85,207	67,390	29,741	182,338	103,154	99,318	52,101	254,573
In-kind other services	76,826	-	-	76,826	75,000	-	10,000	85,000
Total Expenses	<u>\$ 50,487,046</u>	<u>\$ 2,145,773</u>	<u>\$ 2,798,290</u>	<u>\$ 55,431,109</u>	<u>\$ 50,461,405</u>	<u>\$ 1,903,746</u>	<u>\$ 2,595,582</u>	<u>\$ 54,960,733</u>

NORTHWEST HARVEST

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from:		
Donors	\$ 31,082,533	\$ 12,211,134
Government agencies	3,186,608	141,182
Investment	128,030	88,383
Other revenue	348,670	951,102
Cash paid for:		
Personnel	(6,796,544)	(6,434,218)
Food and non-food items for distribution	(3,524,957)	(3,650,215)
Services and supplies	<u>(5,367,387)</u>	<u>(3,600,527)</u>
Net Cash Provided (Used) by Operating Activities	<u>19,056,953</u>	<u>(293,159)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	-	(893,897)
Proceeds from sale of investments	710,443	3,473,827
Purchases of property and equipment	(300,565)	(2,217,930)
Proceeds from sale of property and equipment	<u>17,088,620</u>	<u>800</u>
Net Cash Provided by Investing Activities	<u>17,498,498</u>	<u>362,800</u>
Changes in Cash and Cash Equivalents	36,555,451	69,641
Cash and Cash Equivalents - beginning of year	<u>813,185</u>	<u>743,544</u>
Cash and Cash Equivalents - end of year	<u>\$ 37,368,636</u>	<u>\$ 813,185</u>



# NORTHWEST HARVEST

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Northwest Harvest (the Organization) is a Washington nonprofit corporation. The Organization's mission is to lead the fight for hungry people statewide to have access to nutritious food – while respecting their dignity and promoting good health. Food from the Organization is always free to anyone in need. The Organization's vision is to end hunger in Washington State.

The Organization carries out its mission by collecting and distributing food, operating a food bank in Seattle, and advocating for public policies that reduce food insecurity. The Organization is the only nonprofit food bank distributor operating statewide in Washington with a network of 375 food banks, meal programs, and high-need schools. With distribution centers in Kent, Yakima, and Spokane, the Organization reaches across the state, particularly in rural communities where people in need would otherwise go hungry. In addition, the Organization provides technical assistance and support to its partners in the emergency food network.

The Organization has a memorandum of understanding with the Anti-Hunger Nutrition Coalition (AHNC). Under this agreement, the Organization will serve as a fiscal sponsor until AHNC incorporates and obtains tax exempt status. All donations received by the Organization on behalf of AHNC will be treated as donor-restricted donations and will be released when spent on the AHNC program. During the years ended June 30, 2020 and 2019, the Organization received contributions related to AHNC of \$3,561 and \$750, respectively. During the year ended June 30, 2020 and 2019, the Organization incurred expenses associated to AHNC of \$1,549 and \$1,641, respectively.

#### Adoption of new accounting pronouncement

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis.

#### Basis of presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

# NORTHWEST HARVEST

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

#### Income taxes

The Internal Revenue Service has recognized the Organization as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and cash equivalents

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less, other than those included within the investment portfolio, to be cash equivalents.

# NORTHWEST HARVEST

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

#### Investments

Investments in securities are carried at fair value. Securities donated to the Organization are recorded at fair value at date of gift. It is the Organization's policy that such gifts are immediately sold. Investment return is reported on the statements of activities and consist of interest, dividends, and realized and unrealized gains or losses on investments, net of investment management costs.

#### Receivables

Contributions and other receivables are stated at amounts the Organization expects to collect from outstanding balances. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible contributions and past due receivables. The adequacy of the allowance is based upon the Organization's evaluation of the quality, character, and inherent risks in the various receivable categories. Uncollectible amounts are written off against the allowance when the Organization has exhausted all collection efforts. The allowance for doubtful accounts totaled \$20,643 as of June 30, 2020 and 2019.

#### Inventory

Inventory consists of food held for distribution and is valued at cost if purchased and at an annual rate published by the United States Department of Agriculture if donated.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial interest in funds held by others

Amounts represent trusts and funds held and managed by others. The Organization initially records such amounts at their net present value when notified by the donor or donor representative. Thereafter, the interests are adjusted annually to fair value.

Property and equipment

Property and equipment are stated at cost or, if donated, at fair value at date of donation. Property and equipment with an original cost of \$5,000 or greater are capitalized. Depreciation is computed using the straight-line method, half-year convention, over the estimated useful lives of the assets.

Property and equipment consisted of the following as of June 30:

	Estimated <u>Useful Lives</u>	<u>2020</u>	<u>2019</u>
Land		\$ -	\$ 1,845,648
Warehouse building	39 years	-	10,071,863
Building and improvements	5 - 10 years	348,436	773,776
Leasehold improvements		2,334,022	2,316,423
Office furniture and equipment	5 - 10 years	752,289	828,114
Food storage equipment	5 - 7 years	1,309,969	1,394,542
Automotive equipment	5 years	1,750,525	1,526,521
Computers and software	3 - 5 years	1,013,354	1,017,783
Construction in progress		45,000	-
		<u>7,553,595</u>	<u>19,774,670</u>
Less accumulated depreciation		<u>(4,699,530)</u>	<u>(7,407,575)</u>
		<u>\$ 2,854,065</u>	<u>\$ 12,367,095</u>

Refundable advances

In 2007, King County granted the Organization \$350,000 conditioned upon the operation of the Kent warehouse facility for a period of 15 years expiring December 2022. The conditional grant requires the Organization to repay the original \$350,000 and 4.33% of the net appreciated value of the property should the facility not be used as a food distribution and storage warehouse. Upon sale of the Kent Warehouse in December 2019 (See Note I), King County required the Organization to establish a reserve to be held as collateral in the amount of \$740,483. This is the amount that would be required to be repaid to King County should the Organization cease using the property prior to the end of the leaseback term of December 2022. The amount is included in refundable advances.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2020, the Organization received a loan of approximately \$1,325,000 through the U.S. Small Business Administration Paycheck Protection Program. The amount is subject to forgiveness based on meeting the provisions of the Paycheck Protection Program. The amount received has been recorded as a refundable advance until such time as the provisions are met.

Deferred Rent

Non-cancelable operating lease expenses are recognized using the straight-line method over the related lease term. The current and cumulative differences between the amount of rent expense recorded using the straight-line method and rent due according to the provisions of the lease are deferred in the accompanying statements of financial position.

Support recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return or release, are not recognized until the conditions on which they depend have been met. Certain of the Organization's contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, as of June 30, 2020, conditional grants for which no amounts had been received in advance, totaling \$5,887,422, have not been recognized in the accompanying financial statements.

Donated goods and services

The Organization has included the fair value of donated goods and qualifying services as a part of its total support. Food and non-food products are recorded using average fair value per pound. Facility rental, equipment, software, media advertising and other goods are valued at comparable costs quoted to the general public. Donated services are recognized if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized.

The following summary of donated goods and services revenue is reflected in the accompanying financial statements for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Food and non-food goods received	\$ 39,302,887	\$ 41,494,534
Donated media	554,868	524,355
Other donated goods and services	<u>61,588</u>	<u>168,891</u>
Total contributed goods and services	<u>\$ 39,919,343</u>	<u>\$ 42,187,780</u>

## NORTHWEST HARVEST

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Volunteer services that do not require specialized skills are not reflected in the accompanying financial statements. Management estimates the dollar value of volunteer time according to the Bureau of Labor Statistics value of average hourly earnings of all production and nonsupervisory workers on private non-farm payrolls. The hourly wage was \$24.73 and \$23.38, respectively, for the years ended June 30, 2020 and 2019. The fair value of 74,038 volunteer hours is estimated by management to be worth approximately \$1,830,960 (unaudited) for the year ended June 30, 2020. The fair value of 72,860 volunteer hours is estimated by management to be worth approximately \$1,703,500 (unaudited) for the year ended June 30, 2019.

#### Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and of functional expenses. Where possible, specific expenses have been charged directly to the appropriate category. When functions are shared or costs are intermingled, expenses are allocated based on employee compensation among departments.

#### Advertising

The Organization uses advertising to promote its programs among the community it serves. The cost of advertising is expensed as incurred. For the years ended June 30, 2020 and 2019, advertising costs totaled \$140,913 and \$75,559, respectively.

#### Concentration

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

As of June 30, 2020, 81% of contributions and other receivables was due from the Washington State Department of Agriculture. No such concentration existed as of June 30, 2019.

#### Unemployment self-insurance

The Organization is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under state unemployment insurance statutes. The reserve balance totaled \$15,833 and \$6,926, respectively, at June 30, 2020 and 2019, and is included in prepaid expenses on the statements of financial position. On a quarterly basis, the Organization reviews the activity in its Trust account and reduces the reserve balance by any claims disbursed from its account. As of both June 30, 2020 and 2019, an accrual of \$10,000 has been made for any potentially incurred but not reported unemployment claims that may exist at each date and is included in accrued liabilities on the statements of financial position.

## NORTHWEST HARVEST

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Contingencies

The Organization is involved, from time to time, in various claims and other legal issues arising in the normal course of business. Management believes that any uninsured costs that may be incurred in the resolution of such claims would not be material to the Organization's financial position.

##### Risks and uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States (US). The immediate impact on the US and international economies has been significant. There is significant uncertainty regarding the breadth and duration of the business disruptions related to COVID-19, as well as the impact on the US and global economies. Management is currently evaluating the ongoing impacts of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position, change in net asset and cash flows, the specific impact is not readily determinable as of the date of these financial statements.

##### Reclassification

Certain accounts in the 2019 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended June 30, 2019.

#### NOTE B - LIQUIDITY

The Organization strives to maintain liquid financial assets sufficient to cover 60 days of fixed operating expenditures. Such expenditures average approximately \$1,300,000 per month. Financial assets in excess of the minimum cash requirement are invested in certificates of deposit, money market funds and other short-term investments.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE B - LIQUIDITY (Continued)

The following table reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions or designations by the board of directors.

	<u>2020</u>	<u>2019</u>
Total financial assets	\$ 49,619,264	\$ 10,704,598
Less: Board designated Funds	(16,631,234)	(109,493)
Less: Donor-imposed restrictions		
Specific time or purpose restrictions	(9,497,945)	(693,900)
Endowments	<u>(7,116,512)</u>	<u>(7,179,583)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,373,573</u>	<u>\$ 2,721,622</u>

NOTE C - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis (at least annually) is as follows at June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents				
held for investment	\$ 1,029,618	\$ -	\$ -	\$ 1,029,618
Certificates of deposit	-	250,865	-	250,865
Beneficial interests in funds held by others	-	-	7,799,884	7,799,884
	<u>\$ 1,029,618</u>	<u>\$ 250,865</u>	<u>\$ 7,799,884</u>	<u>\$ 9,080,367</u>

Fair value of assets measured on a recurring basis (at least annually) is as follows at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents				
held for investment	\$ 14,180	\$ -	\$ -	\$ 14,180
Certificates of deposit	-	1,501,860	-	1,501,860
Beneficial interests in funds held by others	-	-	7,341,463	7,341,463
	<u>\$ 14,180</u>	<u>\$ 1,501,860</u>	<u>\$ 7,341,463</u>	<u>\$ 8,857,503</u>



NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

A reconciliation of the beginning and ending balances for fair value measurements of the beneficial interests in funds held by others, made using significant unobservable inputs (Level 3) is as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Level 3 Valuations, Beginning of year	\$ 7,341,463	\$ 1,346,118
Additions	-	5,978,587
Distributions	(6,633)	(96,908)
Investment returns, net	<u>465,054</u>	<u>113,666</u>
Level 3 Valuations, End of year	<u>\$ 7,799,884</u>	<u>\$ 7,341,463</u>

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. The Organization also uses fair value concepts to test various long-lived assets for impairment.

NOTE D - BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS

Perpetual trust

The Organization was named as a beneficiary of a perpetual trust. Under the terms of the trust, an independent trustee will make semi-annual distributions, in perpetuity, to the Organization based upon 2.5% of the trust's net assets. The distributions are available for the general operations. Accordingly, contribution revenue and the related asset were recognized at fair value in the period in which the Organization received notice that the trust agreement conveyed an unconditional, irrevocable right to receive benefits. Subsequent changes in the value of the underlying assets have been recorded in the accompanying statement of activities as a component of investment return, net with donor restrictions.

Seattle Foundation and Floyd Jones Endowment

In November 2007, the Organization established designated endowment funds (the Funds) at the Seattle Foundation (the Foundation). The assets of the Funds are held and owned by the Foundation in its corporate capacity and are not deemed held by the Foundation as trustee of a separate trust for the Organization. Donors granted no variance power to the Foundation. The Foundation shall distribute not less often than annually, unless otherwise requested by the Organization, 4% to 5% of the market, which shall be the three-year trailing average for the Funds, with the excess earnings, if any, being added to principal.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE D - BENEFICIAL INTEREST IN FUNDS HELD BY OTHERS (Continued)

During the first three years of the endowment, the average over the annual periods of investment or fund will be utilized. The principal of the endowment must be retained, administered, and managed by the Foundation for the benefit of the Organization. The Organization requested funds be distributed from the Seattle Foundation funds of \$6,633 and \$96,909, respectively, for the years ended June 30, 2020 and June 30, 2019. No such funds were distributed from the Floyd Jones Endowment.

Beneficial interests in funds held by others are summarized as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Floyd Jones Endowment	\$ 6,631,234	\$ 6,109,943
Perpetual trust	1,027,842	1,084,299
Seattle Foundation funds	<u>140,808</u>	<u>147,221</u>
Total beneficial interest in funds held by others	<u>\$ 7,799,884</u>	<u>\$ 7,341,463</u>

NOTE E - NET ASSETS WITH DONOR RESTRICTIONS

Board-designated net assets (without donor restrictions) are \$16,631,234 as of June 30, 2020, consisting of \$16,000,000 in proceeds from the sale of the Kent warehouse and \$631,234 from the Floyd Jones Endowment earnings. As of June 30, 2019, \$109,943 was designated as the Floyd Jones Endowment.

Net assets with donor restrictions are as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specific purpose:		
Food and other program services	\$ 9,480,737	\$ 678,704
Anti-Hunger Nutrition Coalition	<u>17,208</u>	<u>15,196</u>
	<u>9,497,945</u>	<u>693,900</u>
Subject to distribution in accordance with trust agreements:		
Floyd Jones Endowment	6,000,000	6,000,000
Perpetual trust	975,706	1,032,362
Seattle Foundation endowment	<u>140,806</u>	<u>147,221</u>
	<u>7,116,512</u>	<u>7,179,583</u>
Total net assets with donor restrictions	<u>\$ 16,614,457</u>	<u>\$ 7,873,483</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE E - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets released from donor restrictions are as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Food and other program services	\$ 144,390	\$ 549,845
Capital purchases	-	1,851,597
Endowment appropriations	6,633	94,849
Passage of time	-	75,000
Other purpose-related expenditures	1,549	124,054
	<u>\$ 152,572</u>	<u>\$ 2,695,345</u>

NOTE F - ENDOWMENT

The Organization's endowments consist of two funds held at the Seattle Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has reviewed the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA), and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this determination, the Organization classifies as endowment assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

All investment earnings and appreciation not required to be retained in endowment net assets, as described above, will be classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investment;
- (6) Other resources of the organization; and
- (7) The investment policies of the organization.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE F - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The Organization has adopted investment policies for endowment assets that focus on long-term results. At a minimum, these policies attempt to provide a predictable stream of funding to programs supported by The Organization while seeking to maintain the purchasing power of the endowment assets. Under the policy, the endowment assets are invested in a manner that is intended to produce maximum long-term total returns consistent with reasonable risk to principal for their asset category.

Strategies for Achieving Objectives

The Organization's endowment is invested at the Seattle Foundation and is subject to its investment policies. As previously discussed, the Foundation must distribute not less often than annually, unless otherwise requested by the Organization, approximately 5% (determined by the Board of Trustees of the Foundation) of the fair market value of the Funds, with the excess earnings, if any, being added to principal.

The principal of the endowment must be retained, administered, and managed by the Foundation for the benefit of the Organization. The Organization requested \$6,633 of funds be distributed for the year ended June 30, 2020. The Organization requested \$96,908 of funds be distributed for the year ended June 30, 2019.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. There was no such deficiency as of June 30, 2020 and 2019.

Change in Endowment Net Assets for the Years Ended June 30:

	<u>2020</u>	<u>2019</u>
Endowment Net Assets, beginning of year	\$ 147,221	\$ 239,706
Distributions	(6,633)	(96,908)
Investment returns	<u>220</u>	<u>4,423</u>
Endowment net assets, end of year	<u>\$ 140,808</u>	<u>\$ 147,221</u>

NOTE G - LINE OF CREDIT

During the year ended June 30, 2019, the Organization entered into an operating line of credit with a maximum limit of \$500,000. Interest on the borrowings is calculated at fixed rate of 4.75% with a maturity date of February 28, 2024. There was no outstanding balance as of June 30, 2020 or 2019.

## NORTHWEST HARVEST

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE H - RETIREMENT PLAN 401k

The Organization offers a retirement savings plan (the plan) under section 401(k) of the Internal Revenue Code. At the discretion of the Board of Directors (the Board), the Organization may contribute an additional uniform percentage to each employee eligible to participate in the plan. Employer contributions for the years ended June 30, 2020 and 2019, were \$229,281 and \$207,655, respectively.

#### NOTE I - COMMITMENTS

##### Headquarters lease

In January 2017, the Organization entered into a lease agreement for its Seattle administrative office. The term of the lease is 120 months, expiring December 2026. The lease has monthly rental payments escalating from approximately \$5,600 to \$7,900 over the term of the lease.

##### Food bank lease

In September 2018, the Organization signed a lease agreement for a food bank location in Seattle commencing in October 2018, with base rent payments escalating from approximately \$10,700 to \$13,900 to be paid through March 2029.

##### Kent warehouse sale leaseback

In December 2019, the Kent warehouse was sold for \$17,850,000, at which time the Organization entered into a leaseback of the facility through December 2022, with an option to renew for an additional five years. The Organization does not intend to exercise the option to renew, and thus has chosen only to disclose future minimum payments through December 2022. The lease has monthly rental payments escalating from approximately \$69,500 to \$73,700 over the term of the lease.

In accordance with financial accounting standards, the Organization has accounted for the gain on the sale of the Kent Warehouse under sale-leaseback accounting, which requires the deferral of a portion of the gain on the sale of the property, recognition of which will occur over the term of the lease in proportion to the lease payments. Gain on sale of the property totaled \$7,821,713. Of the total gain, \$2,496,811 was initially deferred and \$416,135 of this amount was amortized during the year ended June 30, 2020, resulting in a total gain on sale of \$5,741,037 recognized for the year ended June 30, 2020.

##### Other warehouse leases

The Organization has leases for warehouse space in Spokane and Yakima. The Spokane lease term runs October 2018 through October 2023 with base monthly rent payments escalating from approximately \$6,300 to \$7,000. The Yakima lease term runs January 2019 through December 2021 with base monthly rent payments escalating from approximately \$9,500 to \$9,900.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

NOTE I - COMMITMENTS (Continued)

In accordance with financial accounting standards, rent expense is recognized on a straight-line basis and a related deferred rent liability was recorded. Future minimum lease payments, change in deferred rent, and rent expense under non-cancelable operating leases for future years ending June 30 are as follows:

	Minimum Lease Payment	Deferred Rent Liability	Amortization of Deferred Gain	Rent Expense
2021	\$ 1,250,743	\$ 25,312	\$ (832,272)	\$ 443,783
2022	1,229,421	(11,710)	(832,272)	385,439
2023	749,819	(20,392)	(416,132)	313,295
2024	259,328	(12,986)	-	246,342
2025	238,968	(19,199)	-	219,769
Thereafter	741,147	(97,532)	-	643,615
	<u>\$ 4,469,426</u>	<u>\$ (136,507)</u>	<u>\$ (2,080,676)</u>	<u>\$ 2,252,243</u>

Rental expense was \$1,067,408 and \$425,129 for the years ended June 30, 2020 and 2019, respectively.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2020 through April 1, 2021 which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2020, including the estimates inherent in the processing of financial statements.

The COVID-19 pandemic, which began in March of 2020, has led to unprecedented levels of contributions and expenditures for the Organization. This has led to a significant increase in cash reserves, which exceed \$60 million. Average food cost per pound has risen by over \$0.40 per pound due to a larger share of sourcing and distribution coming from purchased food rather than donated food.

In September 2020, the Organization entered into a purchase and sale agreement to purchase land in Yakima, Washington as part of its long-term strategy to develop a new distribution facility in Eastern Washington by the end of 2022. On March 3, 2021, the purchase was completed at a cost of \$2,410,000.



## Response to Independent Auditor's Report

May 28, 2021

Jacobson Jarvis & Co, PLLC (the auditors) was engaged in an independent financial audit for the fiscal year ending 2020 to conduct and examine financial records in accordance with generally accepted auditing standards. The auditors conducted their audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances.

As a result of the audit, the auditors issued a qualified opinion and reported a material weakness in our internal control system. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

The audit findings include a lack of consistent implementation and documentation of certain processes and key control activities. The failure to retain adequate supporting documentation with respect to receipts and disbursement of donated goods at the Kent warehouse led to a scope limitation in the auditor's report. In financial terms, the deficiency relates only to donated food and does not impact cash due to the in-kind nature of the donated food.

Northwest Harvest is open to constructive review and willing to take positive action to strengthen controls. We strive to be a good steward of the public's resources and trust. Among the contributing factors that caused the deficiency were staff turnover and the unusual virtual work environments due to COVID-19, including one-third of all staff taking on new duties to execute a COVID-19 emergency response.

In response to the finding, Northwest Harvest has taken immediate action and remedial controls to address the deficiency and build a solid control system to prevent reoccurrence in the future. Management has assessed the risks to the organization and implemented an integrated system of review and monitoring including periodic evaluation and testing of controls by internal personnel and internal audit procedures to test source documentation. Management has also engaged an external consultant to implement a platform to track audit source documentation for donated goods, track results, verify processes are accurate and complete, and implement processes to identify incomplete or incorrect activity. The steps Northwest Harvest has taken will ensure more effective and efficient operations, safeguard its assets, provide reliable financial reports, adherence to organization policies, and compliance with applicable laws and regulations.

Northwest Harvest EMM